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Ifo Economic Climate for the Euro Area

Advanced results of the Ifo World Economic Survey (WES) of the 3rd quarter 2006, in co-operation with the International Chamber of Commerce (ICC), Paris

Euro Area: Economic Climate Somewhat Clouded

The Ifo indicator for the economic climate in the euro area fell somewhat in the third quarter of 2006, after having reached a five-year high in the second quarter. The decline in the climate indicator was solely due to less optimistic expectations for the coming six months. The assessments of the current economic situation continued to improve. These survey results indicate a continuation of the economic recovery, which will weaken slightly in the course of the second half year.

The assessments of the current economic situation improved over the April survey in the majority of the euro countries, with particularly noticeable improvement in Austria and the Netherlands. Spain was the only country in the euro area in which the judgements of the general economic situation were somewhat less favourable than in the previous survey. Whereas the six-month outlook worsened in most euro-area countries, in Portugal and Italy the surveyed experts were more optimistic than they were in the second quarter. However, these are the two euro-area countries in which the current economic situation is still assessed as unsatisfactory.

At 2.2%, inflation expectations for 2006 are somewhat above the target of the European Central Bank, as was also the case for all of 2005. More experts than in the previous survey expect short-term rates continue to rise in the coming six months.

In comparison to the euro, the *US dollar* was assessed as nearly at its correct value. Nevertheless, the majority of the WES experts expect the dollar to continue to weaken in the coming months. The *Japanese yen* is seen again as undervalued, and the *British pound* as overvalued.

Gebhard Flaig

Member of the Executive Board, Ifo Institute for Economic Research at the University of Munich

Euro area (Index, 1995 = 100)

Quarter/year	III/04	IV/04	I/05	II/05	III/05	IV/05	I/06	II/06	III/06
Climate	96.6	89.8	85.6	78.8	78.8	84.8	99.2	103.4	101.7
Situation	76.6	84.1	74.8	65.4	59.8	67.3	86.0	97.2	108.4
Expectations	113.2	94.6	94.6	89.9	94.6	99.2	110.1	108.5	96.1

The Ifo World Economic Survey (WES) investigates world-wide economic trends by polling transnational as well as national organisations in different countries. This allows for a rapid, up-to-date assessment of the economic situation prevailing around the world. The full set of results will be published on 22 August 2006.

The 3rd quarter 2006 euro area results, which are published here in advance, are based on the responses of 279 economic experts. WES is conducted in co-operation with the International Chamber of Commerce (ICC) in Paris and receives financial support from the European Commission.

Fig. 1

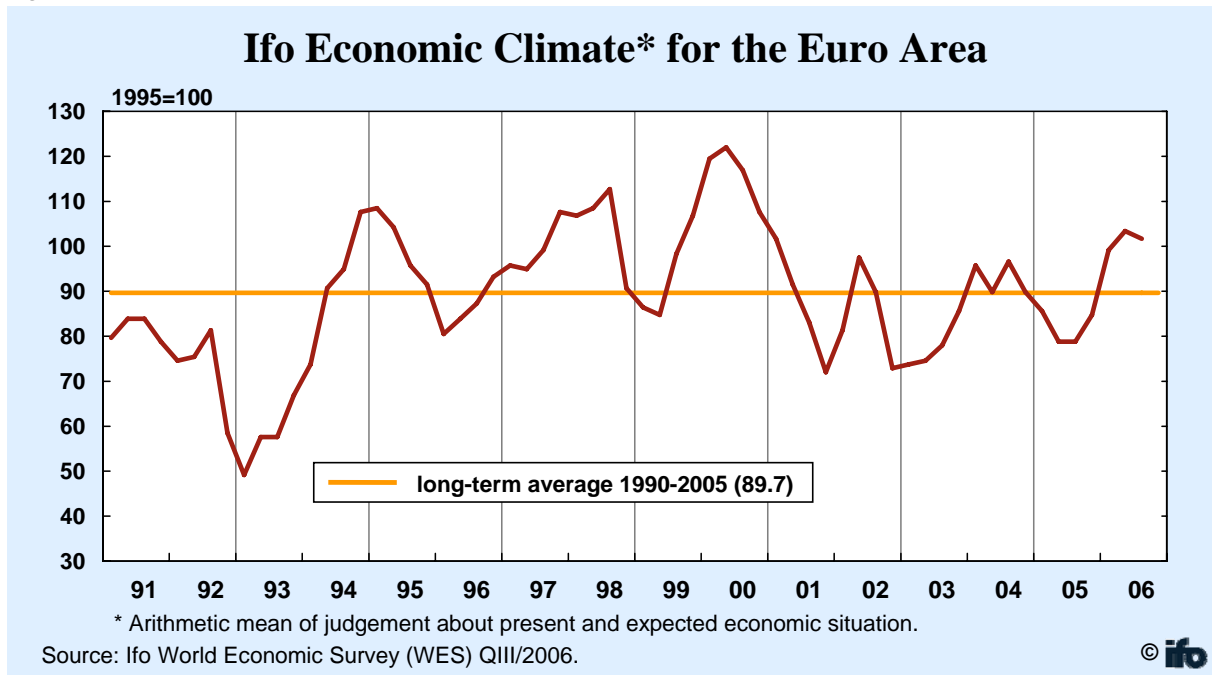


Fig. 2

